

## INFORMATION REPORT

CD NO

COUNTRY Korea

DATE DISTR. 27 APR 51

SUBJECT Business Report of the Chosen Trading Corporation

NO. OF PAGES 16

PLACE 25X1A  
ACQUIRED [REDACTED]NO. OF ENCLS.  
(LISTED BELOW)DATE OF 25X1A  
INFO. [REDACTED]SUPPLEMENT TO  
REPORT NO. 25X1X

The Chosen Trading Corporation initiated its work in 1949 under the most difficult circumstances. In addition to the continued lack of capital because of old company debts, the policy of utilizing foreign capital, and the barter system adopted to exploit the Hong Kong trade route resulted in excess imports, which not only obstructed the acquisition of foreign capital in Hong Kong but also brought difficulties in the conduct of trade on an independent basis. Further, the TAE SO IWAN (大利安) (company vessel) met with disaster in the development of the North China route, and comrade WON Hyöng-ki (元亨基), former Trade Department head, was responsible for certain failures. In spite of these setbacks, however, the Corporation succeeded in straightening out the company capital, establishing a bridgehead in Hong Kong adequate for North Korean needs, acquiring a legal route to Japan, and establishing the North China route. The placing of the Corporation on a solid foundation was made possible through government protection. In particular, the president expressed his appreciation to vice-president KIM Chöng-su (金正洙) and other responsible persons in overseas offices and special agents for their splendid work.

The following is an outline of the Corporation import and export enterprises:

Export of government-allotted goods	918, 686,000 won
Export of company-purchased goods	370, 756,000 won
Goods re-exported	72, 729,000 won
Total	1,362, 171,000 won

The total expenditures incurred in exports amounted to 210,257,000 won, so that the grand total came to 1,572,428,000 won. This is 118.8 percent of the volume envisaged in the plan for 1949. Even without considering the fall in government prices in 1949, it signifies a growth of 245.4 percent over the export cost price of 1948.

Following is a breakdown of the volume of exports handled by each branch:

Sinuiju 5.2 percent

Domestic

1.6 percent.

This document is hereby receded to CONFIDENTIAL in accordance with the letter of 16 October 1973 from the Director of Central Intelligence to the Archivist of the United States.

CLASSIFICATION		CONFIDENTIAL		DISTRIBUTION	Next Review Date: 2008
STATE <input checked="" type="checkbox"/>	NAVY <input checked="" type="checkbox"/>	NSRB <input checked="" type="checkbox"/>			
ARMY <input checked="" type="checkbox"/>	AIR <input checked="" type="checkbox"/>	NSX ORR EV			

Document No. [REDACTED]  
No Change in Class.   
 Declassified  
Class. Changed To: TS S C  
Auth.: HR 78-2

CONFIDENTIAL

-2-

Chongjin	17.7 percent	Wonsan	3.5 percent
Hankhung	13.4	Chinnampo	53.4
		Namyang	2.2

The breakdown of exports by districts is as follows:

	1948	1949	Percentage as compared with 1948
Hong Kong	36.4	77.2	328.2
China	28.2	14.1	77.0
South Korea	22.4	3.8	26.7
Japan	1.8	0.2	19.6
Domestic disposal	11.2	4.7	64.4

The above breakdown shows the shift in trade area in 1949 and indicates the course to be taken in 1950.

The following is a breakdown of exports by commodity:

Oil	1.5 percent	Medical products	1.2 percent
Cotton yarn	1.0	Colored metals	4.3
Woolen goods	0.6	Rubber products	2.3
Leather & leather goods	0.4	Electric appliances	0.1
Paper	0.2	Grains	22.2
Chemical products	9.3	Soybean cake	22.7
Foodstuffs	8.2	Marine products	23.0

In 1948, chemical products topped the list with 37.8 percent, followed by marine products with 23.6 percent, medical products with 16.1 percent and soybean cake with 6 percent. However, in 1949, marine products topped the list with 23 percent, followed by soybean cake with 22.7 percent, grains with 22.2 percent and chemical products with 9.3 percent. In 1948, the principal commodity of export was chemical products, especially chemical fertilizer, while in 1949, marine products and soybean cake replaced chemical products as the main export items. The commodities exported in 1948 were classified in seven categories; those in 1949 in fifteen categories. This was the result of the efforts made to increase the export so as to obtain foreign currency.

The commodities exported to Hong Kong and China as compared by volumes for 1948 and 1949:

Hong Kong -	1948	1949	Percent
Ammonium sulphate	75,196,000 won	8,416,000 won	11.2
Soybean cake	10,001,000 won	308,788,000 won	308.7
Calcium super-phosphate	2,312,000 won		
Graphite	8,949,000 won	29,431,000 won	327.6
Dried ginseng	63,344,000 won	49,207,000 won	77.7
Dried pollack	14,392,000 won	42,968,000 won	293.5
Cotton cloth	41,063,000 won	150,873,000 won	367.8

CONFIDENTIAL

-3-

China -	<u>1948</u>	<u>1949</u>	Percent
Ammonium sulphate	22,856,000 won	9,632,000 won	42.1
Soybean cake	19,840,000 won	39,000 won	
Dynamite	2,060,000 won		
Salt mackerel	2,729,000 won	30,370,000 won	1,112.5

Import

Government planned import	951,829,000 won
Goods imported by company or under urgent instructions	397,083,000 won
Total	1,348,912,000 won

Since the import plan for 1949 underwent three revisions during the course of the year, it is impossible to compare the actual import with the plan, but as compared with the import of 1948, 1949 showed an increase of 140.6 percent.

The following is a breakdown of actual imports by branches:

Sinuiju	7.4 percent	Hamhung	21.4 percent
Chinnampo	53.5	Chongjin	7.4
Wonsan	8.6	Namyang	1.9

The breakdown of imports by district is as follows:

	<u>1948</u>	<u>1949</u>	Percentage as compared with 1948
Hong Kong	55.3	76.2	193.6
China	21.9	18.6	119.4
South Korea	21.1	4.9	33.0
Japan	1.7	0.3	22.4

The breakdown of imports by commodity is as follows:

	<u>1948</u>	<u>1949</u>
Construction material	39.6	54.3
Cultural materials	2.2	5.0
Daily necessities	49.7	33.0
For re-export	8.5	4.7
Others		3.0

How did the defects contained in the policy of foreign capital utilization and the barter system of 1948 meet the needs of the nation in the Hong Kong trade, which is the greatest in volume among the Corporation's trade enterprises? In 1948, the construction materials which are of primary importance in the completion of our people's economic plan occupied 39.6 percent of the imports. However in 1949, through straightening out the defects and promoting trade on an autonomous

CONFIDENTIAL

JL

basis, the increase in import of construction materials to 54.3 percent and decrease in import of daily necessities to 33 percent were realized. Further, 55 percent of the daily necessities imported were cotton fabrics that were urgently needed by the state. This is the result of the establishment in Hong Kong of a bridgehead adequate for the conduct of trade on an independent basis. In 1948, the import list was topped by rubber products with 14.8 percent, followed by automobile and automobile spare parts with 13.8 percent, and textile goods with 10.3 percent. However, in 1949, textile goods jumped to first place with 19.6 percent, followed by machinery and machine tools with 14 percent, and rubber products with 12.5 percent. If the commodities imported in 1949 can be classified into 26 categories, those in 1949 can be classified into 35 categories.

The difficult problem of this trade was acquisition of export commodities. First, the government-allotted commodities can be classified into the following three categories: planned periodic allotment, allotment by instruction, and transfer. The regular periodic allotment consisted of 47 allotments and amounted to 841,917,000 won; the allotment by instruction consisted of 61 allotments and amounted to 244,130,000 won; and the transfers amounted to 185,922,000 won, making a total government allotment of 1,271,969,000 won. The actual amounts received were 87.6 percent in the instance of regular periodic allotments, 83.7 percent in the instance of the allotments by instruction, and 77.5 percent in the instance of the transferred goods, making an average of 85.4 percent received in the total government allotments. Next, the goods purchased by the Corporation for export amounted to 427,748,000 won, which was 110.6 percent of the amount envisaged in the plan. A comparison between this cost price of imported goods and the actual sale proceeds gives 149.6 percent, which means that the actual selling price was 19.6 percent higher than estimated in the sales plan. (In the sales plan, the selling price was estimated at 130 percent of the cost price.)

In railway transportation, the record attained in the planned allotment of cars was 75.1 percent, while that attained in the temporary allotment of cars was 56.6 percent. In shipping, 33 vessels were operated by the company and these ships carried a total cargo of 103,332 tons. A breakdown of this shows that the Tortoise ships made 21 trips with 59,637 tons of cargo, the EASTERN VENTURE made 9 trips with 29,280 tons of cargo, and the SS HSIN LI FENG (信利星) made 3 trips with 14,415 tons of cargo.

The rate of rotation of the total assets was 3.2 times during the year; that of the capital was 4.9 times; that of export goods was 6.2 times; and that of import goods was 13 times. The rate of rotation of the import commodities indicated the rapidity with which the goods imported reached their destinations.

In the expenses accompanying export, a lowering of 14.3 percent of the original estimate was realized, while the expenses of import were lowered 1.0 percent. This was attributed to the response to appeals made to the company's employees at the end of the first half of the fiscal year to make an effort to lower expenditures by at least 10 percent in export and 1 percent in import. As a result, the state profited to the amount of 154,094,000 won.

CONFIDENTIAL

CONFIDENTIAL  
CENTRAL INTELLIGENCE AGENCY

25X1A

-5-

If the basic aims in 1949 were to solidify capital, abolish the barter system, establish and develop trade bridgeheads in Hong Kong, North China, Dairen, Mukden and Japan; and establish a skeleton network for economic investigation work in overseas markets, then the enterprise succeeded in attaining its basic aims. But during the process of attaining the above aims, numerous objective difficulties and subjective defects resulted in our committing numerous errors. For instance, not enough attention has been given to planning. It was not until July 1948 that a planning member was first placed in the Supervision Department, and not until October of the same year that a Planning & Supervision Department was created with two persons entrusted with the task of planning. In February 1949, the Planning Department was organized with five members, but in April the number decreased to four, and it was not until October that the organization was finally agreed upon. This organizational deficiency prevented the Corporation from compiling statistics of the 1948 enterprise, conducting a thorough investigation of overseas markets, and straightening out the investigation files.

In addition to the flaws in organization, the rapid growth of national needs necessitated emergency imports which deprived the plan of continuity and created confusion. Planning delays made it impossible to establish a clear-cut basis for deciding import costs. As a result, in August 1949, in order to avoid an unfavorable trade balance arising from import of goods in the first half of the year at costs that were not tied in any way to foreign exchange, the rates for domestic sales of imported goods had to be raised by 19.6 percent (as compared with the original sales plan). This in turn caused considerable harm to the government's low price policy. Of course, another reason for raising the rate was to increase capital.

The confusion in 1949 planning partly resulted from the absence of any previous plans for 1948. When planning was initiated, there were further delays. For instance, instructions for trade plans for 1949 reached the Corporation on 9 March, but it was not until 14 May, when the second quarter was almost half over, that action was taken on the plans. Instead of just waiting for instructions from above, the Corporation should have drafted a positive trade plan based on the statistics of the previous year, the reports of domestic and foreign economic investigations, and the domestic and international situations. The findings thereof should have been submitted for the mobilization of domestic resources for the acquisition of foreign currency.

Next, the statistical functions became merely a matter of computing figures on a machine. In the compilation of statistics, all efforts were directed towards meeting the deadline for reporting these statistics to the superior organs. Consequently, these statistics were never analysed nor the plans inspected, and timely warnings were never given. The lack of effort to organize statistics on a foreign currency basis necessitated the revising of the plan three times during the year. It was therefore impossible for the Corporation to suggest anything regarding the directive for emergency import of goods, even when this directive did not tie in with the country's trade balance.

CONFIDENTIAL

CONFIDENTIAL  
CENTRAL INTELLIGENCE AGENCY

25X1A

-6-

The loose state of organization of the Economic Investigation Section has been responsible for many defects. Actually, economic investigation is the most backward of all the Corporation's functions. First, we have failed to organize a suitable body to handle the all-important economic investigations. An independent department to handle investigation work appeared in April with one member, and in October the Economic Section was set up with two members. There is even less to say regarding investigation work in 1948. Systematic investigation of markets regarding a certain commodity, competitors, methods of trading, packing, transportation, custom duties, etc., was lacking. Further, market quotations from foreign newspapers have not been studied adequately, and little was done to spread the findings among the personnel of the Corporation. The overseas agents tended to submit arbitrary and scattered reports on their economic investigation work. The environmental difficulties and lack of adequate personnel made their work extremely difficult, but it was considered that they could devote more energy to their work and the time factor in their investigation.

The investigators were accused of having failed to grasp the exact aims of their work. For instance, comrade WON Hyong-ki, former head of the Trading Department, who went to North China to investigate trade prospects there, submitted reports on the North China plains, the mountain areas of Shantung, Jehol and Liaotung, natural conditions for agriculture, statistics on periods of severe frost, rainfall, animal husbandry in various parts of North China, etc. All this information was too general to be of much use in the drafting of a trade policy regarding North China. Later it was learned that these data were copied from books bought from the book stores, and that the comrades who accompanied WON to North China had to waste a great deal of time copying these books. As contrasted with the above, the investigation reports from Hong Kong on red ginseng, graphite, etc., were of very high quality.

Intimate contact with the production organs based on economic investigation was lacking. One example is the distribution and packing of red ginseng, and another is cod-liver oil, which, by raising of the Vitamin A content to 7,560 USP Units, would have become an important commodity to gain foreign exchange. And yet no efforts were made on either side (company and producer) to realize this. In short, efforts were lacking to improve the products or to discover new commodities for export. The main office should provide all overseas branches with detailed information regarding all new export items, and the latter, in turn, should provide the main office with information on prospects regarding certain commodities, the quality or specifications desired, and the amount. Further, the information is needed in advance. Yet, efforts in this direction were lacking among company employees and overseas agents.

The total export volume, as stated, was 1,362,171,000 won. Of the total volume, 87.5 percent was directly exported by the company, while the remaining 12.5 percent consisted of transactions with private individuals, payment for purchases made by the Corporation, and cash sales. A breakdown of the 12.5 percent gives 69.4 percent for private transactions, 21.2 percent for purchase payments and 9.4 percent for cash sales. A considerable quantity of goods destined for export

CONFIDENTIAL

CONFIDENTIAL  
CENTRAL INTELLIGENCE AGENCY

25X1A

-7-

was thus released to the domestic markets through private transactions, payments for purchases and cash sales, and this not only brought considerable harm to the domestic commercial policy, but also gave rise to contradictions in the trade statistics because goods disposed of domestically appeared as export.

Although private transactions occupied a mere 8.6 percent of the total export, there were in all 176 transactions, which provided a heavy administration burden on the Corporation staff and took up a great deal of valuable time. Numerous defects were also evident in the conducting of private transactions. For instance, the Corporation failed to study the question of custom duties on goods imported by private merchants, failed to check whether the goods imported by the merchants were as specified in the import permit, allowed the merchants to set in the price of their goods directly with the consumer, failed to keep an accurate file on the merchants with whom the Corporation dealt, failed to examine thoroughly the import and export permits that were issued in the Corporation's name, etc. These defects, instead of profiting the state, profited the private individuals concerned.

In studying export enterprises, the question is raised whether there has been intimate contact between the main office and its overseas agents. Basically, contact was well maintained, as evidenced by the accomplishments of 1949. However, in part, inadequacy of contact brought no small harm to the activities of overseas agents, entailing loss of foreign exchange. Following is one concrete example: In June 1949, the Hong Kong agent notified the home office to ship a shipment of calcium cyanamide because of the difficulty of its disposal; and yet, on 10 June, 1,333 tons of calcium cyanamide were shipped on SS ALDAN. They are still unsold, and their reported value is hardly enough to pay their warehousing. Even if their value is considered at HK \$120 per ton, the Corporation has already suffered a loss of HK \$150,000. Mistakes like the above are causing state properties to rot away for long periods in Hong Kong warehouses.

Regarding new commodities destined for export, a sufficient amount of samples should be sent overseas agents with information in detail on the packing, composition, quantity, domestic cost, etc. In fact, the above ruling should apply to every shipment. Past negligence in this respect resulted in disparity between our sample and goods delivered, causing needless loss or embarrassment. As to the methods and practices of packing, there are innumerable instances of defective work that are costing the Corporation heavily in foreign exchange. There are no accurate statistics on these losses, but in the future, the overseas agent will submit detailed reports on losses suffered because of defective packing. The losses from defective packing are not limited to shipments to foreign countries. Considerable losses have also been suffered from defective packing during domestic transit of goods. Another cause for losses was in precipitous shipment of goods without adequate forethought. In the case of ALDAN's fifth and eighth trips, the value of the total cargo shipped was approximately equal to the charterage.

CONFIDENTIAL

-8-

Another important problem to consider in the export enterprise is whether the goods have brought just prices in the overseas markets. Take as an example the sale of soybean cake on the Hong Kong market. During the five months from May to September, the price of soybean cake averaged HK\$ 407.69 per ton. During the same period, North Korean soybean cake was sold at the average price of HK \$357.17 per ton. At first it may seem that the North Korean goods were sold very cheap, but the price received was justified, since the North Korean shipment included soybean cake from the Northeast (Manchuria) and Chinnampo Oil Plant. Also, the price listed in the Economic Newspaper was the current retail price. Similar examples can be listed in the case of dried pollack and sheet cloth.

Greater efforts should be made to meet the local demands in price competition and study the nature of the price so as not to miss any opportunities in the effort to gain foreign currencies. If a special trade policy for the Hong Kong area had not been adopted, and if the barter system had not been abolished, the market for the soybean cake could hardly have been maintained. Even less can be said for the dried pollack and sheet cloth, where competition with the superior products from Japan and South Korea is intense.

The total volume of import in 1949 was stated at 1,348,912,000 won. A great obstacle to the import enterprise was the several revisions in import planning, as can be seen from the following:

Plan in first half of the year	1,056,311,000 won
Plan in second half of the year	1,38,917,000 won
Plan after November	645,994,000 won

If the emergency imports amounting to 1,171,583,000 won are added, the confusion in import enterprise is obvious. The multiple private transactions at home and abroad did not improve the situation.

The import of the previous year, conducted under the difficult situation described above, was 89.6 percent in Corporation's hands, while private trading had 10.4 percent. An analysis of the private trade gives the following figures: 15 transactions conducted in accordance with instructions from superior organs, accounting for 11.1 percent of total private trade; 48 transactions concluded by various organs with the Korean Trading Corporation to barter for 13.7 percent of the private trade; and 113 private transactions conducted by the Corporation itself, accounting for 70.2 percent of the private trade. The commodities imported through private channels under instructions from superior organs consisted of electric wires, gold net, tannin, diamonds for industrial use, glass, sulphur, phosphorus, paraffin, manila rope, potassium dichlorate, rock drills, rotary printing presses, lead wire, etc. The commodities bartered by various organs through the Korean Trading Corporation consisted of film, salt-peter, electric wires, motor sailing vessels, steel bars, transformers, lithes, building materials, etc., and commodities imported in private transactions handled directly by the corporation consisted of raw rubber, tannin, nails, glass, potassium dichlorate, potassium chlorate, etc. Although private transactions accounted for no more than 10.4 percent of the total import volume, their number was a big factor in complicating import enterprise and imposed a heavy administrative burden on the Corporation. As a result, it was impossible to conduct a thorough study of the 340 odd varieties of import items and establish intimate contact with the organs desiring these commodities so as to check their exact uses, specifications, time of usage, etc. In short, coordination between the consumer, the company and the overseas agents was lacking.

CONFIDENTIAL

-2-

The proportions of the number and amount of transactions conducted by various organs through the Corporation:

Organ	Number of Transactions	Proportion (percent)	Amount (in 1,000 won)	Proportion (percent)
Ministry of National Defense	5	10.4	5,256	20.0
Ministry of Internal Affairs	3	6.3	3,480	13.3
Min. of Productive Enterprises	13	27.0	5,473	20.9
Min. of Agriculture and Forests	4	8.3	1,451	5.5
Min. of Commerce	2	4.2	921	3.5
Min. of Culture and Propaganda	11	22.9	4,383	16.7
Min. of Health	2	4.2	678	2.6
Min. of City Management	2	4.2	3,513	13.4
Special Production Guidance Bureau	3	6.3	703	2.7
Forestry Bureau	2	4.2	95	0.4
Enterprising Company	1	2.0	217	1.0
Total	48		26,170	

The above table shows that the Corporation failed to make sufficient efforts to import on time the materials needed by the various ministries. It also tells that it has failed in safeguarding the independence of trade enterprise by failing to propose to its superior organ the formulation of a concrete policy against the possession of export commodities by non-commercial and non-productive organizations.

A glance at goods imported through private channels shows that none of them could not have been imported directly by the Corporation. The private transactions could, therefore, be justified only by the time factor. As for example, despite a cable from Hong Kong to the effect that 100 tons of tannin had already been shipped, the organization that needed the product had to procure it at a high price from a private source because it could not afford to wait for shipment by the Corporation.

In the past, the overseas agents experienced considerable difficulties because specifications in ordering goods from foreign countries were not thorough. The cause seems to be in the lack of business knowledge among the workers and in their superficial way of doing their work. For example, when ordering films and sensitized paper, failure to indicate the sensitivity desired and whether the films are for daylight or night use needlessly complicated the work of the overseas agent. Similarly, failure to indicate the year and model of car when ordering spare parts created needless difficulties.

It is considered that the prices at which imported goods were bought were just. For example, cotton cloth imported from Hong Kong was quoted in the Hong Kong Economic Newspaper during the months from April to November at the average of HK \$52.00 per roll. During the same period, the North Korean purchasing price averaged HK \$49.77 per roll, which was lower than the market price by HK \$2.29 per roll. Raw rubber, during the six months from April to November

CONFIDENTIAL

-10-

averaged HK \$1,843. per ton. During the same period the average purchasing price of the Corporation was HK \$1,905.48 per ton, which was higher than the market price by HK \$61.54 per ton. Thus cotton cloth was purchased cheaper, but raw rubber was dearer than the market price.

During the settlement of old accounts of 1948 in Hong Kong, the Corporation suffered losses from the barter system. Some of the reasons are:

- a. As barter condition, we had to guarantee profits to the merchants.
- b. In estimating the value of exchange goods, the merchants are willing to give only a very low price because they take into consideration possible market fluctuations.
- c. The merchants are prone to add illegitimate profits to their own goods and deceive the party they are dealing with.
- d. Because of the quantity and variety of goods on hand, the state often had to barter with speculative merchants. This resulted in the inflation of prices or refusal by prospective buyers because the sales publicity of the merchants made the amount of goods for sale appear more than the actual amount.
- e. As a consequence of the above, goods stopped circulating and their prices could not be maintained at a fixed level, and this, in turn, wiped out future opportunities.

In order to correct these defects, the Corporation struggled to abolish the barter system in its Hong Kong trade and succeeded in doing so. The same theory can be applied in domestic transactions with private merchants by studying the problem and effecting a revolutionary improvement.

The regular export allotment from the government amounted to 841,917,000 won. Compared with this, the total of contracts with other parties amounted to 805,684,000 won, which comes to 95.7 percent of the allotment. Of the remainder, 23,767,000 won or 3.4 percent were not contracted, and 7,466,000 won or 0.9 percent were over-contracted. In the amount not contracted, 17,740,000 won, or 61.7 percent, was rejected by the other party because of inadequate production, while 11,027,000 won, or 38.3 percent, was rejected by the Corporation because of export difficulties.

As for the actual amount of goods received from the government compared with the amount allotted:

In regular allotment	87.6 percent
In allotment by instructions	83.7 "
In transfers	77.5 "

Following is an analysis of reasons for non-delivery of goods after contracts had been signed:

Cancellation of allotment	9.7 percent
Lack of production	61.5 "
Inferior quality of goods	11.5 "
Difference in specifications	4.5 "

CONFIDENTIAL

-11-

Packing	1.0 percent
Transportation	2.0 "
Refusal	7.9 "
Other reasons	2.0 "

The amount of goods not delivered for the above reasons in terms of Hong Kong dollars is HK \$5,187,854.

From the fact that the percentage of goods delivered rose from 70 percent in the third quarter to 113 percent in the fourth quarter when intimate contact was established with the producers by dispatching resident agents to the various production centers, it can be seen that the basic cause for non-delivery was in the lack of adequate cooperation with the production factories.

The actual amount for the purchase of goods by the Corporation for export was 427,748,000 won, which is 110.6 percent of the goal in the 1949 plan. However, a careful study of this figure brings to light the following: The actual amount purchased in the country was 358,180,000 won, which is 92.5 percent of the goal and 83.7 percent of the total amount purchased. The remainder, namely 69,568,000 won or 16.3 percent of the total amount, was re-export items and (through a contradiction in financial organization) were merely paper work on the account books of the Purchasing Department.

As for the purchasing channels, 56 percent was purchased from government organs (including consumers' cooperatives) and 1/4 percent from private individuals. In the disposal of goods imported for purchasing purposes, 41.6 percent went to the production organs, 21.6 percent to the business organs and 36.8 percent to private individuals. Moreover, 38.2 percent was given out under contract and 61.8 percent was arbitrary disposal. The above figures would indicate that the purchasing enterprise in 1949 developed with little or no planning. Among the main causes the following are given:

- a. Failure to set up a clear-cut purchasing plan. Absolutely no investigation was conducted on the goods that should be purchased, the state of production and consumption of these goods at home, the goods marketable abroad, etc. As a result, the purchasing plan was unstable and unpractical.
- b. Lack of capital funds for the purchase and lack of smooth supply of goods that the Corporation wished to purchase. The purchasing fund, as the plan demanded, was too great a burden on the Corporation. On the other hand, the supply of goods that the company wished to buy was often unsteady.

Under such difficulties, the Corporation had no choice but to use guerrilla tactics in purchasing. Further, in striving towards its major goal of gaining foreign currencies, it could not afford to discriminate between dealing with the government organs, consumers' cooperatives or private concerns; neither could it afford to make any distinction among the production, commercial or private organs when effecting barter purchases with imported goods.

In matters of transportation there appeared still other deficiencies. The number of freight cars requested in the plan was 1,701 and this number was later revised to 1,668. However, the actual number of freight cars operated was 1,254, or 75 percent of the revised number. The Corporation was guilty of breach of contract on 204 cars, which necessitated payment of damages totaling 198,750 won. Reasons for breach of contract were: no goods to transport, 31 cars; change in plan, 173 cars.

CONFIDENTIAL

-12-

The number of cars requested for special occasions totaled 1,619, but the actual number operated totaled 2,299, or 59 percent of the request. The difference of 1,620 cars was caused by : no goods to transport, 1,430 cars; no cars available, 187 cars; and other reasons, 3 cars.

Next is the problem of shipping, which is of paramount importance to the Corporation. Considerable efforts have been made towards improvement in this field, and the state of shipping in 1949 was as follows:

	Total Cargo Tonnage	Average Tonnage per Vessel
Mortrans	59,637.4	2,839.9
EASTERN VENTURE	29,280.4	3,253.0
HSIN LI FONG	14,415.5	4,805.0

The total arrearage paid to Mortrans amounted to US \$10,589.76 and 2,651,202 won. This was necessary because we failed to study closely whether or not the daily average loading tonnage of 720 tons as contracted between Mortrans and the Corporation was a practical figure. Following is the average daily loading figure from actual record:

Chongjin Branch	453.1 tons
Wonsan Branch	237.3 "
Harhong Branch	415.9 "
Chinnampo Branch	457.3 "
Hong Kong	366.0 "
Dairen	225.6 "
Tientsin	333.6 "
Average	366

The original contract with Mortrans covered the period up to the third quarter of 1949. During that time, the charterage was HK \$46.46 and 1,137.88 won per ton. However, in the fourth quarter, the charter contract was revised to one based on weight in an effort to eliminate the defects of the previous contract. As a result, charterage during the fourth quarter decreased to HK \$40.07 and 1,071.71 won per ton, a decrease of HK \$6.39 and 66.17 won per ton. The new contract, moreover, increased the responsibility of both parties, and the resulting increase of cargo tonnage per vessel and shortening of sailing days brought large profits to North Korea. Up to the third quarter, the cargo loaded was 85.6 percent of the capacity, but in the fourth quarter, the percentage went up to 93.4 percent. The defects in transportation are many. In railway transportation, the unstable character of the export plan and the guerrilla tactics employed in the purchasing enterprise were the basic factors behind the breach of contract. These same defects affected, in part, the shipping enterprise.

The performance of Mortrans was referred to as splendid. Its ships played a prominent part in North Korean development of the Hong Kong and Tientsin routes and made expansion possible. However, the following points of possible improvement were referred to: The Mortrans ships burned coal. They are old and their tonnage is small. The transportation fee on the average is high. Following is a comparison of the average cost per ton between the EASTERN VENTURE and the Mortrans ships:

Mortrans ships	HK \$40.07 plus 1,071.71 won
EASTERN VENTURE	HK \$40.98

CONFIDENTIAL

-13-

The following are some of the defects entailed in the contract based on weight:

- a. When there is not sufficient cargo to ship back from overseas, the ships, in order to increase the safety margin in sailing, call at harbors in Central and North China to load more cargoes from merchants there, thus delaying the whole shipping plan.
- b. Because of the system of payment of arrearage, the ships are often requested to depart empty even when there are definite indications that there will be a shipment within a few days.
- c. Since foreign vessels are contracted under a charter system, there is a paradoxical tendency to load less on the Mortrans ships and more on foreign ships.

The problem to consider is the lowering of shipping and incidental expenses. As a result of the appeal made to the company staff at the end of the first half of 1949 to work for a 10 percent decrease in export expenses and a 1 percent decrease in import expenses, the following results were obtained:

<u>Export Expenses</u>	<u>Plan</u>	<u>Record</u>	<u>Increase or Decrease</u>
		(Percent)	(Percent)
Export tax	11.3	6.0	5.3-
Charterage	6.8	4.3	2.5-
Container cost	11.1	3.1	8.1-
General expenses	5.2	3.8	1.64
Total	34.4	20.2	14.3-

  

<u>Import Expenses</u>	<u>Plan</u>	<u>Record</u>	<u>Increase or Decrease</u>
		(Percent)	(Percent)
Import tax	8	3.3	0.34
General expenses	3	1.7	1.3-
Total	11	10.0	1.0-

That such results were possible was due to the keen competition among the branches, and the efforts of the branch staffs. On the other hand, there are a great many other problems which await solution. For example, because of lack of a definite policy regarding canvas covers, the Hamhung and the Chinnampo Branches had to pay out large sums for them. The daily average work tonnage of 720 tons itself awaits further study, and nothing has yet been done about computing as work hours the loss of time due to causes beyond human control such as rain, rough seas, winch trouble or air raid drill.

The rotation of the Corporation's total assets in 1949 was 3.2 times. The average working capital per month was 330,885,000 won, and the average sales volume of imported goods was 135,482,000 won per month. This means that the capital rotation in 1949 was 4.9 times or once every 73.4 days. As for the export commodities, the average quantity in warehouses per month was 219,630,000 won, and that shipped out per month was 113,304,000 won, giving rotation of six times during the year, or once every 58 days. In import, the quantity of imported goods in warehouses per month was 117,257,000 won, and the sales volume of imported goods was 126,862,000 won, which gives a rotation of 13 times or once every 27.6 days.

For greater speed in the rotation of export commodities, the Corporation had tried

CONFIDENTIAL

everthing it could. While studying rotation rates, it found that among goods exported were those that had been designated as unsuitable for export, and that many of these in fact were needed for home consumption. The notable ones were alcohol, toilet soap, candles, grape sugar, red alum, ethyl and barium chlorate. There were also goods that did not accumulate at home, but accumulated in foreign lands. Accumulated in Hong Kong were 1,132.3 tons of calcium cyanamide, 894.3 tons of calcium superphosphate, and around HK \$294,209.00 worth of bristles, ginseng and lamps. With the exception of calcium cyanamide and bristles, these goods were exported in 1948 when the Hong Kong market was first being exploited. Likewise, 20.7 tons of alcohol were shipped to Tientsin to the open market, and these have not yet been sold. The following conclusions were drawn: (1) Goods unsuitable for export should either be consumed at home or no longer produced. (2) In order to avoid accumulation of goods, overseas economic investigation work should be conducted on a wide front. The information collected should be put to use, and dependable radio communications should be utilized. Among the imported goods that have been in accumulation for over a year were movie cameras, rock drill spare parts, spinning drums, radios, and unrefined salt; while goods that have been in accumulation for over three months consist of seven items valued at 5,357,323 won. Reasons for their accumulation are imperfect products, different specifications, or limited usage.

Another important factor obstructing the rotation of capital is the several day's delay between the entry of a ship into the harbor and the arrival of instructions regarding disposal of cargo. The time from the arrival of the ship to the submission of application for disposal of cargo was from three to 28 days, necessitating an average delay of 11 days. Further, it took an average of 18 days from the submission of application to the Trade Bureau to the arrival of instructions. Consequently, the average period of waiting was 29 days. Since each rotation of imported goods took 27.6 days, the above delay was equivalent to the loss of one rotation.

In financial administration, insufficient thought was given to the computation of foreign currencies. The overseas offices failed to effect a financial balance in foreign currency and gave little thought to how the profits and losses of the trading enterprise appeared in terms of foreign currency. As a result, while the balance sheet of 1948 showed a profit of 44,131,691 won, the inspection enterprise organized at the end of 1949 actually showed a deficit of 123,293,720 won. This mistake must not be repeated in the future.

Accidents may be classified into accidents during transit and accidents occurring in warehouses. There were in all 62 accidents during transit, involving 1,241,636 won. An analysis into the nature of these accidents shows that 33 cases or 53.2 percent involved damages, 17 cases or 27.4 percent involved insufficient quantity dispatched, three cases or 4.8 percent involved decrease in volume from natural causes, two cases or 3.3 percent involved robbery, one case or 1.6 percent involved deterioration of goods, and the remaining six cases or 9.7 percent consisted of miscellaneous causes. A total of 22 accidents occurred in warehouses, involving 1,616,793 won. An analysis of the causes shows that eight cases or 36.4 percent involved inadequate inspection, five cases or 22.7 percent involved decrease in volume from natural causes, three cases or 13.6 percent involved damages, one case or 4.5 percent involved deterioration of goods, one case or 4.5 percent involved robbery, and the remaining four cases or 18.3 percent consisted of miscellaneous causes. The above figures should serve as a basis in studying means to prevent accidents in the future. An important protective measure against accidents is marine insurance, and while the shipping during the past two years involved several tens of thousands of tons, the Corporation failed to make adequate arrangements.

CONFIDENTIAL

-15-

for marine insurance. Twice during 1949, the Corporation was close to experiencing a major sea disaster--storms that overtook the SS AIVAZOVSKY in the vicinity of Taiwan and the EASTERN VENTURE in the vicinity of Japan.

The Inspection Committee was first introduced on 17 November 1949 in order to correct the 1948 balance, which was not linked to foreign currency. It completed the work on 7 February 1950. For this job, which took 7,001 work hours, 583 persons were mobilized. By straightening the 1948 balance, which originally showed a profit of 44,131,000 won, instead a deficit of 123,293,000 won appeared. The results were then linked to the balance sheets of 1949. By thus consolidating the financial aspects of the Corporation, it was possible to sum up the business of 1949. The committee was headed by comrade KIM Chong-yun (金鐘允), who surmounted great odds to complete the inspections.

The president's report for 1949 concludes with a statement of the rapid growth of the Corporation. Despite the successes, there have been numerous defects in the enterprise. To eliminate these defects, the president proposes the following:

- a. Strengthen the planning phase. The confusion in planning in 1949 was an immense obstacle to the import, export, purchasing and transportation enterprises, both at home and abroad. Therefore, economic investigation work should be organized by the Planning Department to set up annual and quarterly plans. The chiefs of all departments and the overseas agents should participate in collecting accurate data. In the compilation of statistics, close contact should be maintained at all times with pertinent departments or sections. In particular, constant attention should be paid to the linking of statistics to foreign currency. While thus far the Corporation has depended on instructions from above, it should now begin its own economic investigation and planning.
- b. The Corporation must develop new methods for the acquisition of foreign currency. To accomplish this, it must conduct investigations on export commodities, display initiative in its fight for foreign currencies, and economize in all expenditures involving foreign currency.
- c. The Corporation must abolish the barter system. There has been ample proof of the losses inflicted on the state by that system. It must not only abolish the system in connection with Hong Kong, which covers 77 percent of North Korean trade, but also Tientsin and Dairen. In domestic transactions, too, the company should in principle abolish the barter system.
- d. The Corporation must organize a department to handle foreign currency calculations, so that it can realize accurate trade balance in such currency. The overseas agents must see to it that requested reports on the subject are submitted within prescribed time.
- e. In shipping, the Corporation must positively and yet rationally utilize Mortrans ships, aim at lowering the daily work average of 720 tons to a practical level, and in the payment of charterage, strive to decrease payment in foreign currency and increase payment in domestic currency.
- f. The Corporation must establish intimate contact with the producers. In addition to dispatching resident agents to production plants, it must have a dependable system for field reports on quality, packing, etc., so that the prestige of the Corporation may be maintained. Moreover, in view of the fact that 61.5 percent of non delivered goods was due to inadequate production, constant attention should be devoted to this matter.

CONFIDENTIAL

-16-

*CONFIDENTIAL*

- g. The Corporation must establish intimate contact with the consumers of imported goods. It must find out exactly the required specifications of the products, their uses, and their period of need. It must organize its trade so that there is a live spirit of teamwork among the field offices, the home office and the consumers.
- h. In order to lower import or export expenditures, the Corporation must draw up and enforce an accurate plan regarding packing and containers and devise means against the repetition of mistakes which necessitated extra expenditures in the past.
- i. The Corporation must be more alert to prevent accidents. Insurance on import and export commodities must be taken out in foreign countries (especially Hong Kong), and concentrated efforts must be made to prevent damages during transit and accidents in warehouses.
- j. The Corporation must intensify inspection work internally and seek guidance from superior organs. Overseas agents must submit certificates and accurate reports on imported goods at all times, and pertinent departments of the Corporation must constantly study and analyse these reports.
- k. In view of the special nature of the enterprise, the Corporation must take special precautions in the dispatching and safeguarding of documents and maintain absolute secrecy on personnel, shipping and trading matters, not only to outsiders but also to family members.
- l. The persons in charge of various departments and offices must not only depend on the Staff Personnel Department for the training of reserve personnel, but must also train personnel within their own departments. The rotation of personnel must be decreased, so that employees can become proficient at their jobs. In particular, in order to elevate the political theoretical standard of the overseas agents and send them warm greetings from home, the Corporation must not neglect to send them newspapers, magazines, and books whenever possible.

In conclusion, agents overseas should devote their utmost effort towards exceeding the goal for 1950 by applying the revolutionary theories of Marxism and Leninism to the practical enterprise of the Korean Trading Corporation.

25X1A

*CONFIDENTIAL*

Comment. The Chosen Trading Corporation is officially considered in Communist North Korea as a semi-private corporation, but its archives show no share-holding or other type of financing usual in private or semi-private corporations. It was financed initially by the Communist Party (NKLP) and remains the property of the Party even though some governmental units may be represented on the board of directors; the company is said, for example, to be subordinate to the Department of Commerce.

*CONFIDENTIAL*